

## **FREDONIA Microfinance Country Strategy Case**

You are working in the USAID mission in the capital of the country of Fredonia, a less developed country. Your task is to decide what to do about microfinance in Fredonia, and how to go about it.

**Macro information.** Fredonia has a population of 10 million, 30% living in the capital city and most of the remaining 70% living in rural areas, which are generally poorer than the capital. GDP is equivalent to \$US 350 per capita. Agriculture accounts for 40% of GDP. An estimated 60% of the labor force works in “informal” (unregistered and untaxed) settings. Health, education, and rural infrastructure are bad. Inflation has been steady at 10%. The ten private commercial banks charge a rate of about 20% to their best borrowers. Over 90% of their business is in the capital city.

**USAID’s position.** USAID’s annual budget for Fredonia is \$10 million, of which the microenterprise budget is \$2 million. While it typically works with the government, USAID can also support private activities. USAID has one staff member who knows something about microfinance (YOU!) due to this crash course.

**Existing microfinance actors.** A quick inventory identifies the following institutions:

- **FLUSH**,<sup>1</sup> an NGO that used to concentrate on health and education but that has moved heavily into grant-funded microcredit in the last three years. The present manager (the third since FLUSH took up microcredit) is a 50-year-old economist formerly employed by the finance ministry. FLUSH provides 3-month working capital loans to urban microentrepreneurs at an effective interest rate of 2% per month.

	<u>1997</u>	<u>1998</u>	<u>1999</u>
Clients	2,500	5,000	10,000
Admin. efficiency ratio <sup>2</sup>	120%	80%	70%

Average outstanding balance of loans is \$300 and delinquency has been a problem.

- There are over 200 other small NGOs working at the community level all over Fredonia. Fifteen of these are doing microcredit using self-help groups, village banks, and solidarity groups: none of these fifteen has more than 1,500 clients. Some of the organizations have asked USAID for support to strengthen their operations.
- The Fredonia Foundation is a prominent and respected NGO. It provides social services, but one of the visionary board members has been thinking about adding a microcredit program. They have a good track record with other USAID projects.

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<sup>1</sup> Fredonian League for Urban Substandard Households

<sup>2</sup> Admin. Efficiency Ratio: Total Administrative Expenses over Outstanding Loan Portfolio.

- The government's State Development Bank has 100 branches, 30 in the capital city and 70 spread out around the country in market towns. It has 80,000 active borrowers (average outstanding balance = \$800), 500,000 active deposit accounts, and 5,000 employees. Loans are for one year at 15% interest per annum. It has a 70% repayment. The government would like USAID to support this bank.
- There are about 75 credit unions affiliated with the credit union federation, though a third or more are no longer operating. Total present membership is 50,000. Their average loan is \$1,000; the average deposit is \$160. Financial reporting is sporadic and unreliable, but a knowledgeable observer says that about 15 are solvent, of which twelve serve rural members. They are supervised by a unit in the Ministry of Labor that is responsible for oversight of all cooperatives.

**You have many more questions, but the answers are unavailable at the present time. Nevertheless, your boss needs you to propose a plan of action now, because binding budget allocations for the next three years are going to be determined next month.**

TASK 1: Spend the next 5 minutes evaluating the information above. Using the option list below, decide which partner you will choose to begin your microfinance program in Fredonia. (You may find multiple options attractive. Keep additional options in mind, but assume that you must start your program with only one partner due to staff and funding constraints.)

TASK 2: When instructed by the facilitator, find others in the class who chose the same option you did. Spend 10 minutes working with these like-minded individuals to create a three point statement of why this option is preferred. The three points should include:

- 1) WHY you chose this option
- 2) WHAT is the purpose of the intervention?
- 3) Identify one key indicator that you will use to measure progress.

TASK 3: Each group will appoint a spokesperson to make a two minute presentation of the group's three point statement. Be prepared for questions!!!

OPTIONS:

- 1) Support FLUSH to....
- 2) Work with any number of the 200 small NGOs working at the grassroots level to...
- 3) Work with the Fredonia Foundation to....
- 4) Support the State Development Bank to...
- 5) Work with any number of the credit unions to ...